D.C. Area Expands as Financial Center
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Our Changing Economy

D. C. Area Expands as Financial Center

By Philip S. Brown

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WE are exhorted continually to spend and to save. Merchants entice us to spend and the financial community preaches thrift. However, the advice of the latter is often equivocal. For example, commercial banks urge us to save—and pay us for doing so—and at the same time advertise their willingness to finance, on reasonable terms, a new car, television set, or vacation trip. Life insurance companies offer a one-package deal that involves spending and saving.

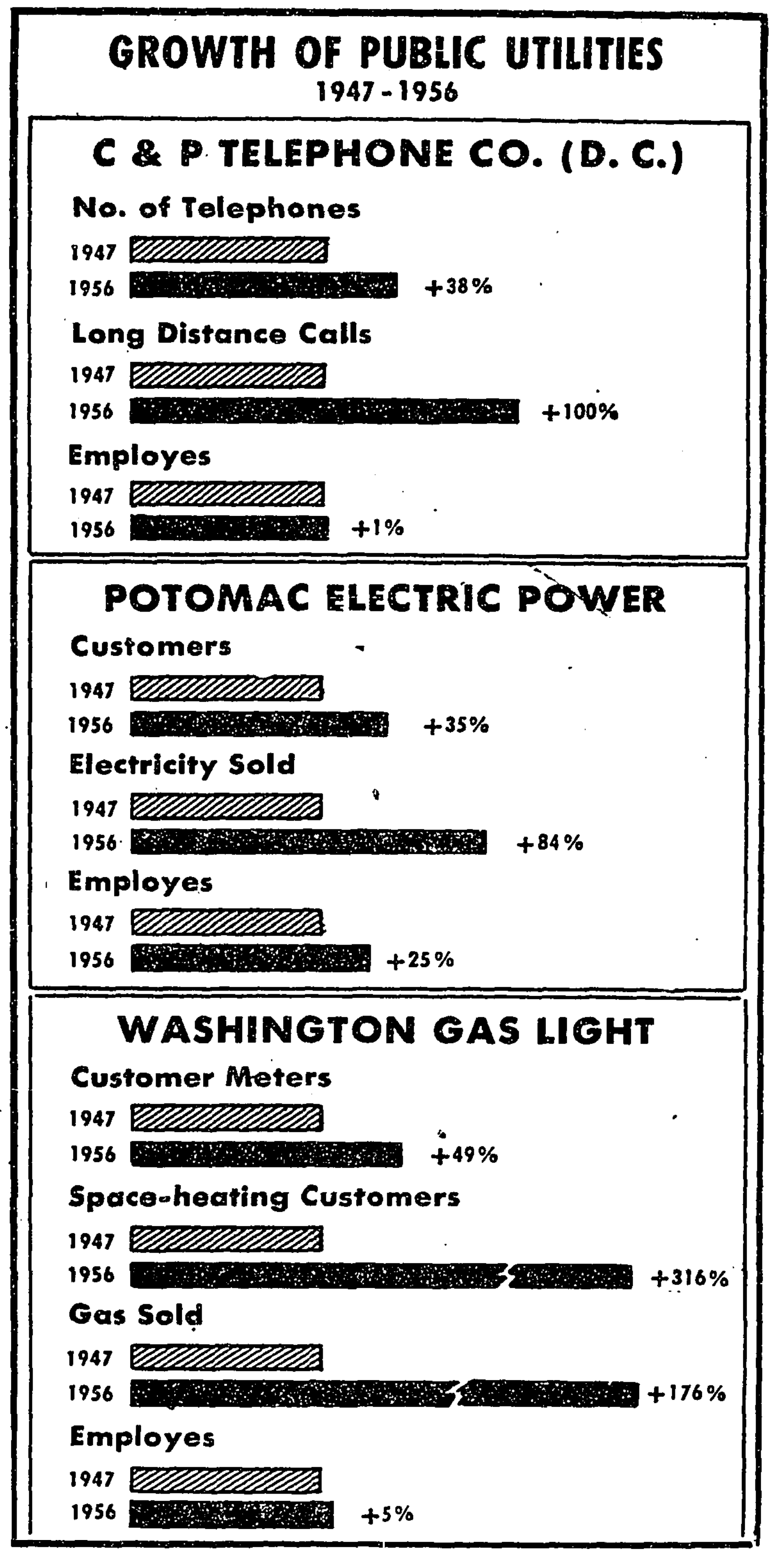
Financial institutions grow not only to handle the increase in savings but also the increase in spending. In fact, the same people who save by buying insurance, government bonds and mutual-fund shares, may borrow to buy a car or television set. In this way, the gross financial assets and debts of individuals have risen much more in recent years than personal income. Consequently, the number of employes of financial institutions has risen much more than employment as a whole.

Through the operations of Government-sponsored financial agencies, Washington has become one of the world's financial centers. Here are the headquarters of the World Bank, the Export-Import Bank, the International Finance Corp., the Federal Reserve System, the Federal Home Loan Bank Board and many others. For the purposes of this article, however, only the financial institutions of a private and local nature are described.

In Washington, the private financial community has grown rapidly in recent years: Whether it has grown more or less rapidly than in other cities is difficult to say. In 1956, the sale of mutual-fund shares in the District exceeded $18 million, a gain of 32 per cent over 1955; for the country at large, the gain was only 12 per cent. Assets of savings and loan associations in the Washington area rose 19 per cent, compared with a rise of 14 per cent in all U.S.A. Sales of "ordinary" life insurance, in the District, were 11 per cent greater in 1956 than in 1955, as against a gain of 16 per cent, nationally.

Over 35,000 persons in Washington are privately employed in "finance, insurance and real estate," 20 per cent more than in 1951. Total employment, in contrast has risen less than 4 per cent.

In the country as a whole, the number of "registered representatives" authorized to sell securities has doubled since 1948, and it is probable that the increase in Washington has been much greater.



Mutual Funds

Perhaps the most remarkable expansion has been in the sale of mutual funds (companies set up to invest in common stocks.) These funds are designed mainly for small investors, but not in all cases. For example, there are funds that invest in Canadian stocks and pay no dividends, so as to attract people in high-income brackets by the prospect of capital appreciation.

The buyer typically pays 8¼ per cent more than the net asset value of the shares he buys; this commission goes to pay the salesman and others concerned in the distribution of mutual-fund shares. Expenses of management are deducted from investment income and may amount to 20 per cent or more of such income.

Salesmen of mutual funds stress their value as a hedge against rising costs of living and point out that the prices of common stocks have risen much more than the cost of living in the post-war period. (The pre-war experience is not stressed.)

Diversification is another selling point and is especially effective in the case of a few funds, such as the Atomic Development fund, which invest heavily in new fields of activity that involve unusual risks. For an individual with $1000 or $2000 to invest, it is not feasible in most cases to buy a few shares of a large number of stocks. On the other hand, there are investment counsellors who argue that one can get adequate diversification by buying a handful of stocks, such as Transamerica, duPont and Canadian Pacific, each of which encompasses many industries and is itself a diversified investment.

Advocates of mutual funds like to compare the role of such funds in the field of equity investment with that of savings and loan associations in the mortgage field. Both gather and invest individual savings and fulfill equal but different needs, they suggest. One major difference, certainly, is the ease with which one can purchase the stock of a large company of known credit, compared with the difficulty of lending to unknown homebuilders; the latter involves verification of titles, appraisals, credit investigations, etc.

Big Growth

For one reason or another, sale of mutual funds has increased phenomenally not only in Washington but in the country over. Mutual fund shares have a value of over $9 billion and are owned by nearly two million persons. One reason may be the greater effort devoted to their sale than to the sale of most other securities, because the selling commission per dollar invested is much greater. In fact, the size of the commission makes it worthwhile to advertise extensively and for a salesman to call upon his prospects.

Many firms selling mutual funds conduct training classes for their salesmen, as life insurance companies do, and provide them with leads gotten by direct mailings and with a briefcase of selling aids. One local firm, not itself a member of the New York Stock Exchange, claims to have 100 salesmen, most part-time, who operate from their homes, soliciting by telephone and personal calls.

Some salesmen have found that mutual funds appeal especially to military men, and several firms direct almost all their selling efforts to persons in the armed forces. This may account, in part, for the very great increase in mutual-fund sales in the Washington area.

Local Funds

The Atomic Development Mutual Fund, whose shares were first publicly offered in December, 1953, had net assets of $44 million at the end of 1956, of which 28.5 per cent were in the stocks of uranium-mining companies. The balance of its holdings were in companies that also have some stake in atomic energy, but in many cases the stake is small relative to their other activities. This fund, whose head office is located in Georgetown, is interesting because it focuses on a new and rapidly growing area of investment.

In contrast, the Washington Mutual Investors Fund invests in a wide assortment of common stocks of long established companies, all of which are included in the list of securities that are legal for the investment of trust funds in the District. Net assets of this fund, sponsored by Johnston, Lemon & Co., are well over $8 million, more than 60 per cent greater than a year ago.

Both funds are sold nationally and probably do not account for a very large fraction of total mutual-fund shares bought by Washington residents. In the case of the Atomic Development Fund, only 6 per cent of all shares sold have been to residents of the District, Maryland and Virginia.

Brokerage Business

Some of the older security houses have doubled their staffs in recent years, and eight new firms have opened offices. There are no figures on the volume of listed and over-the-counter securities bought and sold by Washington firms, but this business has grown very greatly.

One institution that has not grown much over the years is the Washington Stock Exchange, now a branch of the Philadelphia-Baltimore Stock Exchange.

During the "call hour," at 11:15 a. m. to noon, representatives of local brokerage firms meet in the small room of the Exchange in the Southern Building. Each of the 37 locally-traded stocks is called in turn. Shares are offered and bid for, and if transactions occur, they are recorded and cleared in the adjoining room. Johnston, Lemon & Co. creates a market for "odd lots" by offering to buy such shares for its own account, or sell shares from its own account. But most sales are for "round lots" of 10 or 100 shares, depending upon the price of the stock, and the role of the brokers is to match "buy" and "sell" orders.

Last year, 195,870 shares were traded during the "call hour," of which 104,366 were PEPCO common and 46,751 were Washington Gas Light common. . . . Actually most trading in local stocks is "over the counter" and occurs before and after the "call hour."

More important than brokerage firms and investment counselors, from the point of view of the volume of savings collected and administered, are local savings and loan associations, whose assets approach $1 billion, and commercial banks, whose net assets are about $2 billion and which also administer a large volume of trust funds. The exact amount of personal, as distinct from corporate and government, funds entrusted to banks, is not recorded.

Commercial Banks

District banks had deposit liabilities of $1.4 billion and total assets of about $1.5 billion at the end of 1956. This is a gain of 18 per cent in the past five years. Three banks accounted for $910 million, or two-thirds, of the deposit liabilities of the 17 banks operating in the District.

Outside the District, 28 of the area banks have assets of $500 million. Many of these have grown rapidly in recent years; in fact, some have been incorporated only recently. Assets of 13 Maryland banks in the Washington area totaled $261 million at the end of 1956, of which Suburban Trust Co. accounted for $113 million, making it the fourth largest bank in the area. In the Virginia area there were 14 banks with assets of $240 million. More recently a new bank at Seven Corners has been incorporated.

Other Institutions

Savings and loan associations in the Washington area have nearly doubled their assets since 1951 and are likely to pass the $1 billion level this year. Since the bulk of their funds is invested in mortgages, they have been a major source of financing for residential building in this area since World War II.

The importance of these institutions as a gatherer of individual savings is indicated by the fact that deposits of shareholders in 1956 exceeded withdrawals in 1956 by about $70 million. Another major component of Washington's financial community are the insurance companies with headquarters here. Among the largest are the following with assets listed as of the end of 1956 (in $1000s):

Acacia Mutual Life	342,000
Peoples Life	110,000
Equitable Life	98,000
Govt. Employees Insurance Cos. ..	63,000

A substantial part of the assets of these and other companies in the District is invested locally and these companies provide employment for several thousand persons.

Three of the above companies are planning or already are constructing new headquarters buildings. Equitable Life has broken ground on Wisconsin ave. Peoples Life has obtained a permit for construction on a Foggy Bottom site, and Government Employees has purchased a site in the Wisconsin and Western aves. area. Acacia, not long ago, completed a large addition to its offices that face the Capitol.